

Harvard-Ray Goldberg Group
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Under Secretary for Rural Development
Remarks

Good evening. Thank you for that very kind introduction. It is a distinct pleasure to be here. I'd like to move as quickly as possible to the discussion, but before we do let me take a moment to sketch in some context. Without being patronizing, this is what we refer to as the "RD 101," but I think it may be useful. Rural Development is one of seven USDA agencies.

USDA Rural Development's mission is to increase economic opportunity and improve the quality of life in rural communities.

We are essentially an investment bank for rural America. (mentions guarantees) We administer over 40 programs with a portfolio in excess of \$94 billion:

- \$43 billion in housing and community facilities; (lists)**
- \$47 billion in rural utilities; (lists)**
- \$4.5 billion in business lending. (portfolio is expanding)**

Since 2001, we've invested over \$76 billion and created or saved over 1.5 million jobs in rural communities. We are fond of saying that we are the only agency in government that can build an entire community from the ground up. We do a bit of everything: water and wastewater, electric, telecommunications and broadband; single and multi-family housing; hospitals, schools, and other community facilities; and – again – business lending—particularly energy and broadband.

There is one statistic that I don't share with most audiences but I think you will appreciate it. That is the “bang for the buck” number.

Based on the 1990 Credit Reform Act, in the President's 2007 Budget, we accounted for just 2.3 percent of USDA's budget authority but generated 18-20 percent of the Department's program level. Those numbers aren't final – we're still on a continuing resolution -- but that is a relatively consistent number year-to-year.

Most government agencies are a dollar in and a dollar out, plus administrative costs. As a lending agency, however, we generate a multiplier. That becomes extremely important in a stringent budget environment.

This past year we took about \$2.6 billion in budget authority (including S&E to support 6,500 staff) and turned it into over \$18 billion in investment. We're proud of that.

The goal of all this is building new OPPORTUNITY in rural America. On that subject, I am an unabashed optimist. I believe that this is a unique moment – a point of inflection – thanks to the impact of modern technologies that level the playing field and open the door to historically unprecedented investment and wealth creation in rural communities.

Let's start with renewable energy. This year USDA projects the value of U.S. farm production at \$273 billion. Also this year, we'll pay over \$300 billion for imported oil. Biofuels are a new market bigger than all of American agriculture today. If we can displace one billion barrels of oil imports with biofuels, that's bigger than today's net farm income.

Another opportunity is biobased products. I don't have a number to put on the potential market – it's too big for easy assessment. The USDA Bio-Preferred Program has already identified over 9,000 biobased products

from over 1,900 manufacturers for possible listing, and we're just getting started. Many of you may already be involved with this.

Or consider the impact of distributed computing and broadband. This is the most powerful tool for the dissemination of information in history. It permits radical decentralization. It encourages the replacement of rigid centralized structures with flexible distributed networks.

But for our purposes, it especially redefines rurality when every small business or entrepreneur has instant access to real-time information, sophisticated technical support, financial institutions, and global markets. Among other things, it means that smaller towns and cities that can offer lower costs and a higher quality of life have just gained an enormous competitive advantage.

Now let me loop this back to our mission. As these opportunities develop, how do we maximize the value for rural America?

The answer really starts with entrepreneurship. (There's been lots of lip service, but this is crucial) For too long, too many people in rural

America, especially in agriculture, have been trained to think in terms of program-led development. That needs to change.

That fact is, Rural America is awash in investment capital. American farmers are sitting on over \$1.9 trillion in assets and over \$1.7 trillion in net farm equity. And that's just the farmers.

\$1.9 trillion, by the way, is about 1,000 times greater than our annual program budget at USDA Rural Development. That puts the strategy of standing in line waiting for government assistance into proper perspective. Rural America clearly has the financial assets to participate – IF we can get farmers and other rural investors off the sidelines.

This becomes a question of information and technical assistance. Technical assistance and local capacity building has always been part of our mission. It is now moving to the center. At the same time, distributed computing and broadband put us in a new information environment.

Linking these assets is fundamental to our vision of where USDA Rural Development needs to focus our efforts. Let me wrap up by describing

some recent research initiatives we've established that suggest where we're heading.

We currently have four projects underway. FIRST, we're looking at business models to identify approaches that facilitate distributed ownership of ethanol and other renewable energy projects. These might include the franchise model ... new generation cooperatives ... producer-owned LLC's ...wholly and partially owned subsidiaries ... mixed ownership businesses ... and traditional cooperative organizations.

SECONDLY, we are researching investment models to hopefully reduce the transaction costs of aggregating local capital. The approaches may include SBIC style funds; mutual funds or other venture capital pools; new generation or mixed ownership cooperatives; and others.

This involves questions like investment diversification, ownership transfer, tax treatment, investment policy, and governance. We're also looking at huge issues relative to the SEC and state regulations, regulatory issues and policy tools such as technical assistance, tax incentives, and loan and grant programs to encourage local investment. (70 year regulatory framework).

THIRD, we're studying regulatory and logistical issues affecting the buildout of the biofuels industry. For example, there is a wide divergence in State renewable fuels standards, taxes, subsidies, and tariffs. These need to be rationalized.

We will also have to build the capacity to gather, store, and move biomass in massive quantities. There are railroad and pipeline capacity issues. There will be zoning, permitting, and rights-of-way issues; construction constraints; and workforce development challenges. These all need to be addressed.

FINALLY, we're looking at issues involved with linking distributed electricity production to the legacy generation and transmission system. Wind and solar power are potentially as important as biofuels to the rural economy. The potential resource is immense, and so will be the production infrastructure needed to tap it. Distributed generation poses challenges to the traditional grid. We want to reduce the barriers.

I was talking the other day to Jack Gleason who administers our Business and Cooperative Programs. Jack summed it up very well. He said that today USDA Rural Development is in the information business just as much as the loan and grant business.

I think that's true. We are on the cusp of getting people to realize they have the ability to own many of the new assets that are emerging in rural America today. If we can tie the use of technology, new energy, and local assets into transparent, well governed, and thoughtful business and investment models, we will have substantively altered the face of rural America and, frankly, the understanding of equity opportunities for most Americans.

That's our goal, and I look forward to discussing it with you. Thank you.